Results of Operations

The following table sets forth certain financial data from our consolidated statements of operations for the years ended March 31, 1999, 2000 and 2001 expressed in each case as a percentage of revenues.

	Year Ended March 31,		
	1999	2000	2001
	(As a percentage of revenues)		
Revenues	100%	100%	100%
Expenses:			
Country representative compensation - non-outsourcing services	18	14	14
Country representative compensation - outsourcing services	0	17	21
Bandwidth and related costs	17	19	19
Network operations	18	15	12
Selling, general and administrative	46	41	30
Total expenses	99	106	96
Operating income (loss)	1	(6)	4
Other income (expense)			
Interest income	0	3	6
Interest expense	0	(2)	(2)
Other, net	0	0	0
Provision for income taxes	0	(1)	(4)
Minority interest	0	0	0
Extraordinary item	0	0	0
Net income (loss)	1%	(6)%	4%

Year Ended March 31, 2001 Compared to Year Ended March 31, 2000

Revenues increased $180.5 million, or 37%, from $481.4 million in the year ended March 31, 2000 to $661.9 million in the year ended March 31, 2001. Excluding revenues resulting from a significant outsourcing agreement entered into on September 30, 1999, revenues increased $90.0 million, or 24%, over the prior period from $382.1 million to $472.1 million. The overall increase in revenues was due to increases of $66.2 million, or 31%, in Network Services, $63.4 million, or 54%, in Consulting, Integration and Provisioning Services, and $55.6 million, or 42%, in Other Communications Services. The majority of the Network Services growth came from increased sales of intranet and remote access services. Intranet sales increased $46.5 million, or 36%, from $128.3 million to $174.8 million and remote access sales increased $13.7 million, or 31%, from $43.9 million to $57.6 million, over the period. Other Communications Services and Consulting, Integration and Provisioning Services increases included approximately $59 million and $31 million, respectively, in revenues from outsourcing services as revenues were earned for a full period compared to a six-month period in the prior year. Excluding revenues from outsourcing services, Consulting, Integration and Provisioning Services, comprised primarily of our Global Connect services, increased $32.7 million, or 32%, from $102.9 million to $135.6 million over the period. Excluding revenues from outsourcing services, Other Communications Services declined $4.1 million, or 9%, from $46.9 million to $42.8 million. This decrease is largely due to an expected decline in our mature messaging product line and our X.25 transport services, as our clients are migrating to more advanced messaging applications and non-X.25 based transport services, offset by a one-time commitment fee paid by one of our sales channel partners of $7.8 million.

Revenues from our country representatives increased $47.7 million, or 13%, from $357.5 million in the year ended March 31, 2000 to $405.2 million in the year ended March 31, 2001. Excluding outsourcing services, revenues from country representatives increased $52.3 million, or 16%, from $331.3 million to

$383.7 million over the year. Outsourcing revenue, which began mid-year during the prior period, declined by approximately $5 million related to a one-time recognition of contract termination fees during the prior year. While the number of our country representatives remained at 55 over the period, revenue increases were derived through the growth of existing country representatives. The number of our clients increased 7%, from 1,402 clients as of March 31, 2000 to 1,503 clients as of March 31, 2001. Revenues increased as clients that used mostly lower revenue generating messaging and X.25 based transport services were replaced by clients that purchased higher revenue yielding Network Services. Revenues from our alternate sales channels grew $132.8 million, or 107%, from $124.0 million to $256.7 million over the period. Approximately $95 million of the increase resulted from outsourcing services as revenues from the outsourcing business were earned for a full year period as compared to a six-month period in the prior year. The balance of the increase is primarily attributed to growth through existing sales channel partners. In total, our alternate sales channel partners resold our suite of services to 8 fewer clients, from 1,022 clients as of March 31, 2000 to 1,014 clients as of March 31, 2001.

In terms of revenues billed on a regional basis, the majority of our growth was in the EMEA region, which increased $162.9 million, or 54%, from $302.7 million in the year ended March 31, 2000 to $465.5 million in the year ended March 31, 2001. Approximately $90 million of this revenue growth was in Europe resulting from outsourcing services as revenues from the outsourcing business were earned for a full year period as compared to a six-month period in the prior year. The balance of the increase is due to the addition of new clients and increases in sales of services to existing clients. Revenues billed in the Americas grew $6.3 million, or 5%, from $138.6 million to $144.9 million over the period. Revenues billed in Asia Pacific increased by $11.3 million, or 28%, from $40.2 million in the year ended March 31, 2000 to $51.5 million in the year ended March 31, 2001, due to increased sales efforts in a growing market.

Country Representative Compensation increased $84.2 million, or 56%, from $151.3 million in the year ended March 31, 2000 to $235.4 million in the year ended March 31, 2001. Approximately $65 million of this increase resulted from outsourcing services revenues. The balance of this expense grew in line with the related revenue.

Bandwidth and Related Costs increased $35.0 million, or 39%, from $90.5 million in the year ended March 31, 2000 to $125.4 million in the year ended March 31, 2001. This increase was directly related to higher network leasing expenses associated with increasing the capacity of our network and our newly introduced ATM capability, although the unit cost has dropped significantly. The usage growth reflects additional client port growth and increased capacity per port, as well as the building of an infrastructure with lower capacity utilization. Lease expense, the largest component of bandwidth and related costs, increased $16.1 million, or 21%, from $76.0 million in the year ended March 31, 2000 to $92.1 million in the year ended March 31, 2001. Amortization of purchased capacity increased $15.4 million, or 360%, from $4.3 million to $19.6 million over the period as a result of owning a major portion of our bandwidth capacity in the backbone of our network.

Network Operations increased $7.3 million, or 10%, from $72.2 million in the year ended March 31, 2000 to $79.5 million in the year ended March 31, 2001. Stock-related compensation charges decreased $6.2 million, or 87%, from $7.2 million in the year ended March 31, 2000 to $934,000 in the year ended March 31, 2001. Depreciation expense related to network equipment increased $6.2 million, or 42%, from $14.6 million in the year ended March 31, 2000 to $20.8 million in the year ended March 31, 2001. The remainder of the increase was related to the increased costs associated with our network management, operations and support activities, personnel costs and other network operations expenses which grew in line with our revenues.

Selling, General and Administrative increased $1.6 million, or 1%, from $196.3 million in the year ended March 31, 2000 to $197.9 million in the year ended March 31, 2001. Stock-related compensation charges decreased $16.0 million, or 61%, from $26.2 million in the year ended March 31, 2000 to $10.2 million in the year ended March 31, 2001. Our sales support expenses for multinational activities increased $1.7 million from

$68.0 million in the year ended March 31, 2000 to $69.7 million in the year ended March 31, 2001 which was directly related to revenue growth. Sales and Marketing personnel-related expenses increased $7.0 million from $61.9 million in the year ended March 31, 2000 to $68.9 million in the year ended March 31, 2001 due to increased sales and marketing efforts to increase our business. Administrative expenses, excluding stock-related compensation expense, increased by $504,000 from $22.7 million in the year ended March 31, 2000 to $23.2 million in the year ended March 31, 2001.

Operating Income (Loss) increased by $52.5 million, from a loss of $(28.8) million in the year ended March 31, 2000 to income of $23.7 million in the year ended March 31, 2001 due to the factors described above.

Other Income (Expense) increased $26.2 million, from $6.1 million in the year ended March 31, 2000 to $32.3 million in the year ended March 31, 2001. This increase reflects growth in interest income of $28.7 million, from $14.6 million to $43.3 million resulting from the investment of the initial public offering proceeds received in December 1999. The increased interest expense of $4.7 million, from $7.2 million to $11.9 million over the period, resulted from borrowings under the Senior Secured Credit Facility.

Provision for Income Taxes increased from $4.0 million in the year ended March 31, 2000 to $28.0 million in the year ended March 31, 2001. The effective tax rate in the year ended March 31, 2001 is lower than experienced in the prior year because non-deductible stock based compensation charges and deferred tax valuation allowance decreased.

Extraordinary Item, Net of Tax for the year ended March 31, 2001 represents the write-off of unamortized debt issuance costs associated with the $49.6 million of long-term debt which was repaid prior to its due date during the year ended March 31, 2001.

Net Income (Loss) increased from $(26.7) million in the year ended March 31, 2000 to $27.2 million in the year ended March 31, 2001 due to the factors described above.

Year Ended March 31, 2000 Compared to Year Ended March 31, 1999

Revenues increased $178.4 million, or 59%, from $303.0 million in the year ended March 31, 1999 to $481.4 million in the year ended March 31, 2000. Excluding revenues resulting from a significant outsourcing agreement entered into on September 30, 1999, revenues increased $79.1 million, or 26%, over the prior period from $303.0 million to $382.1 million. This increase was primarily due to a $72.4 million increase, or 50%, in sales of Network Services over the period, from $144.6 million to $217.0 million. The majority of the Network Services growth came from increased sales of intranet and remote access services. Intranet sales increased $47.4 million, or 59%, from $80.9 million to $128.3 million and remote access sales increased $21.2 million, or 93%, from $22.7 million to $43.9 million, over the period. In addition, Consulting, Integration and Provisioning Services, comprised primarily of our Global Connect services, increased $24.1 million, or 31%, from $78.8 million to $102.9 million over the period. Our Applications Services declined $4.8 million, or 24%, from $20.1 million to $15.3 million. Other Communications Services, excluding revenues from outsourcing services, declined $12.6 million, or 21%, from $59.5 million to $46.9 million. Other Communications Services, excluding revenues from outsourcing services, decreased over the period largely due to an expected decline in our mature messaging product line and our X.25 transport services, as our clients are migrating to more advanced messaging applications and non-X.25 based transport services. Other Communications Services and Consulting, Integration and Provisioning Services increases included $85.7 million and $13.6 million, respectively, in revenues from outsourcing services.

Revenues from our country representatives increased $84.3 million, or 31%, from $273.2 million in the year ended March 31, 1999 to $357.5 million in the year ended March 31, 2000. Approximately $26 million of the increase resulted from outsourcing services. Although we decreased the number of our country representatives from 56 to 55 over the period, we saw increased revenue that was derived largely through the growth of existing country representatives. The number of our clients increased 24%, from 1,129 clients as of March 31, 1999 to 1,402 clients as of March 31, 2000. Approximately 135 of the increased clients resulted from outsourcing services. Revenues increased as clients that used mostly lower revenue generating messaging and X.25 based transport services were replaced by clients that purchased higher revenue yielding Network Services. Revenues from our alternate sales channels grew $94.2 million, or 316%, from $29.8 million to $124.0 million over the period. Approximately $73 million of the increase resulted from outsourcing services, the balance of the increase is primarily attributed to growth through existing sales channel partners. In total, our alternate sales channel partners resold our suite of services to a net additional 838 clients, including 806 new outsource clients, from 184 clients as of March 31, 1999 to 1,022 clients as of March 31, 2000.

In terms of revenues billed on a regional basis, the majority of our growth was in the EMEA region, which increased $144.5 million, or 91%, from $158.2 million in the year ended March 31, 1999 to $302.7 million in the year ended March 31, 2000. Approximately $99 million of this revenue growth was in Europe as a result of the outsourcing transaction; the balance of the increase is due to the addition of new clients and increases in sales of services to existing clients. Revenues billed in the Americas grew $22.7 million, or 20%, from $115.9 million to $138.6 million over the period. Revenues billed in Asia Pacific increased by $11.4 million, or 40%, from $28.8 million in the year ended March 31, 1999 to $40.2 million in the year ended March 31, 2000, due to increased sales efforts in a growing market.

Country Representative Compensation increased $97.5 million, or 181%, from $53.8 million in the year ended March 31, 1999 to $151.3 million in the year ended March 31, 2000. Approximately $84 million of this increase resulted from outsourcing services revenues. The balance of this expense grew in line with the related revenue.

Bandwidth and Related Costs increased $37.8 million, or 72%, from $52.7 million in the year ended March 31, 1999 to $90.5 million in the year ended March 31, 2000. This increase was directly related to higher network leasing expenses associated with increasing the capacity of our network and our newly introduced ATM capability. The usage growth reflects additional client port growth and increased capacity per port. Lease expense, the largest component of bandwidth and related costs, increased $32.9 million, or 76%, from $43.1 million in the year ended March 31, 1999 to $76.0 million in the year ended March 31, 2000. Amortization of purchased capacity increased $3.9 million, from $409,000 to $4.3 million over the period.

Network Operations increased $17.2 million or 31%, from $55.0 million in the year ended March 31, 1999 to $72.2 million in the year ended March 31, 2000. The largest component of this increase was a $7.2 million stock-related compensation charge recorded in the year ended March 31, 2000. The remainder of this increase was related to the increased costs associated with our network management, operations and support activities, personnel costs, depreciation and other network operations expenses. Depreciation expense related to network equipment increased $4.9 million, or 51%, from $9.7 million in the year ended March 31, 1999 to $14.6 million in the year ended March 31, 2000.

Selling, General and Administrative increased $56.6 million, or 41%, from $139.7 million in the year ended March 31, 1999 to $196.3 million in the year ended March 31, 2000. The largest component of the increase was a $26.2 million stock-related compensation charge recorded in the year ended March 31, 2000. Our sales support expenses for multinational activities increased $10.6 million from $57.4 million in the year ended March 31, 1999 to $68.0 million in the year ended March 31, 2000 which was directly related to revenue growth. In addition, personnel related expenses increased $6.3 million from $55.6 million in the year ended March 31, 1999 to $61.9 million in the year ended March 31, 2000 due to increased sales and marketing efforts to increase our business. Administrative expenses, excluding stock-related compensation expense, increased by $10.3 million from $12.4 million in the year ended March 31, 1999 to $22.7 million in the year ended March 31, 2000. The increase was primarily due to legal and accounting fees and other expenses incidental to the outsourcing transaction, retirement settlement expenses, cancellation of an incentive program, and moving and building related expenses.

Operating Income (Loss) decreased by $30.6 million, from income of $1.8 million in the year ended March 31, 1999 to a loss of $(28.8) million in the year ended March 31, 2000 due to the factors described above.

Other Income (Expense) increased $4.5 million, from $1.6 million in the year ended March 31, 1999 to $6.1 million in the year ended March 31, 2000. This increase reflects growth in interest income of $12.7 million, from $1.9 million to $14.6 resulting from the investment of the initial public offering proceeds received December 21, 1999. The increased interest expense of $6.5 million, from $689,000 to $7.2 million over the period, resulted from borrowings under the Senior Secured Credit Facility.

Provision (Credit) for Income Taxes increased from $(180,000) in the year ended March 31, 1999 to $4.0 million in the year ended March 31, 2000. The effective tax rate is higher in the year ended March 31, 2000 due to non-deductible stock based compensation charges and adverse tax consequences associated with the inability to realize certain subsidiary losses as a tax benefit.

Net Income (Loss) decreased from $3.4 million in the year ended March 31, 1999 to $(26.7) million in the year ended March 31, 2000 due to the factors described above.

Liquidity and Capital Resources

Net cash provided by operating activities during the year ended March 31, 2001 was $71.7 million compared to $25.6 million in the year ended March 31, 2000. The increase in net cash provided by operating activities in fiscal 2001 was primarily attributable to a $53.9 million increase in net income, a decrease in the growth of accounts receivable of $41.1 million, and a $24.1 million increase in depreciation and amortization, offset by an increase in the growth of accounts payable of $69.7 million. Net cash used in investing activities for fiscal 2001 was $669.9 million compared to $145.7 million for fiscal 2000. The increase in cash used for investing activities during this period primarily resulted from increased purchases of property, equipment and communication lines of $156.7 million and purchases of securities available-for-sale of $743.1 million offset by increases in proceeds from sales of securities available-for-sale of $245.4 million and maturities of securities available-for-sale of $150.1 million. Net cash provided by financing activities in fiscal 2001 was $9.5 million compared to $839.6 million for the year ended March 31, 2000.

Our principal capital expenditure requirements involve the upgrade and expansion of The World Network through the purchase or lease of transmission capacity and the purchase of network related equipment as well as computer equipment, furniture and fixtures. We have funded these expenditures to date primarily through cash from operations, the net proceeds from our initial public offering, borrowings under our debt facilities and operating and capital leases. Our capital expenditures for the year ended March 31, 2001 were approximately $68.2 million for network-related equipment, approximately $214.5 million for the purchase of transmission capacity, and approximately $5.3 million for other capital expenditures. Of these capital expenditures, $31.2 million were non-cash transactions during the year ended March 31, 2001. As of March 31, 2001, we had capital lease commitments totaling approximately $12.1 million payable in various years through 2007 and thereafter.

In connection with the deployment of our ATM-enabled backbone, we estimate that we will make less than $125 million of capital expenditures during the year ending March 31, 2002. We expect that our capital expenditures will be approximately $150 million in the year ending March 31, 2003. These expenditures will include payments for the purchase of additional submarine cable capacity. We expect to use cash from operations together with the proceeds of the initial public offering and availability under the Senior Secured Credit Facility to fund these capital expenditures. The exact amount of future capital expenditures will depend on a number of factors, including availability under our Senior Secured Credit Facility, our ability to negotiate contracts to purchase transmission capacity at favorable prices and the demands of our multinational clients. If we have exhausted the net proceeds of the initial public offering and borrowings under the Senior Secured

Credit Facility are not available, we may be required to seek additional debt or equity financing. We cannot assure you that any financing will be available on commercially reasonable terms or at all, or that any additional debt financing would be permitted by the terms of our existing indebtedness.

Our ability to make scheduled payments of principal of, or to pay interest on, our debt obligations, and our ability to refinance any debt obligations, or to fund planned capital expenditures, will depend on our future performance, which, to a certain extent, is subject to general economic, financial, competitive, regulatory and other factors that are beyond our control. Our business strategy contemplates substantial capital expenditures in connection with the upgrade and expansion of The World Network.

As of March 31, 2001, the Company had cash and cash equivalents of $137.6 million, short-term investments of $464.0 million, working capital of $546.8 million and total assets of $1.3 billion. Indebtedness under the Senior Secured Credit Facility totaled $90.0 million as of March 31, 2001 with additional borrowings available under this facility of $100.0 million. Building mortgage indebtedness as of March 31, 2001 totaled $24.0 million.

Based on current plans and business conditions, we believe that our existing cash and cash equivalents, short-term investments, and cash generated from operations will be sufficient to satisfy anticipated cash requirements for at least the next twelve months.

Inflation

The impact of inflation on our operations has not been significant to date. Over the past two years, rising prices for some of our supplies have been offset by decreasing prices for other services. In particular, our per unit costs for leased lines and circuits has generally decreased over this period. However, we cannot assure you that per unit costs for leased lines and circuits will continue to decline or that a high rate of inflation in the future will not adversely affect our operating results.

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risks, which arise during the normal course of business from changes in foreign exchange rates and interest rates. A discussion of our primary market risks associated with our foreign currency transactions, available-for-sale securities, and long-term debt exposure is presented below.

Foreign Exchange Risk

We conduct our operations in more than 60 countries around the world in a number of different currencies. There is exposure to future earnings when foreign exchange rates change and certain receivables, payables and intercompany transactions are denominated in foreign currencies. We monitor our exposure to foreign currencies through our regular operating activities and have not historically used derivatives to hedge foreign exchange risk.

We invoice substantially all sales of our services to our country representatives and sales channel partners in U.S. dollars. However, many of our country representatives derive their revenues and incur costs in currencies other than U.S. dollars. To the extent that the local currency used by the country representative fluctuates against the U.S. dollar, the obligations of the country representative may increase or decrease significantly and lead to foreign exchange losses or gains. We assume the exchange rate risk for our consolidated country representatives; however, our non-consolidated country representatives assume the exchange rate risk under our country representative structure.

Our exposure to exchange rate fluctuations primarily arises from outsourcing services and assignment agreements with AUCS, which are denominated in euros as well as operating costs associated with such agreements. Approximately 30% of the company's revenues for the year ended March 31, 2001 were generated from the euro-denominated AUCS agreements. The revenues and the related costs result in a net euro exposure of the gross profit, which is equal to approximately 20% of revenues. The euro-denominated gross profit offset by other euro-denominated operating costs generally results in a natural hedge. However, timing of settlement of euro-denominated accounts receivables and payables subjects the company to exchange rate risk on settlement of the receivables and payables. Euro-denominated cash, accounts receivable and accounts payable related to AUCS agreements were $33.3 million as of March 31, 2001.

As of March 31, 2001 we were primarily exposed to the following currencies: the British pound, the Swiss franc, and the Euro. Based upon a hypothetical ten-percent strengthening of the U.S. dollar across all currencies, the potential losses in future earnings due to foreign currency exposures would have been approximately $2.2 million as of that date.

As of March 31, 2000 we were primarily exposed to the following currencies: the Canadian dollar, the British pound, the Dutch guilder, and the Euro. Based upon a hypothetical ten-percent weakening of the U.S. dollar across all currencies, the potential losses in future earnings due to foreign currency exposures would have been approximately $1.6 million as of that date.

Interest Rate Risk

We currently maintain an investment portfolio of high quality marketable securities. According to our investment policy, we may invest in taxable instruments including U.S. Treasury bills, obligations issued by government agencies, certificates of deposit, commercial paper, master notes, corporate notes and asset-backed securities. In addition, the policy establishes limits on credit quality, maturity, issuer and type of instrument. All securities are classified as available for sale, and recorded in the balance sheet at fair value. Fluctuations in fair value attributable to changes in interest rates are reported as a separate component of stockholders' equity. We do not use derivative instruments to hedge our investment portfolio.

The carrying amount, principal maturity and estimated fair value of our investment portfolio and long-term debt exposure as of March 31, 2001 are as follows:

	Carrying Amount	Maturity						Fair Value
	2001	2002	2003	2004	2005	2006	Thereafter	
	(Dollars in thousands)							
Investments								
Cash equivalents........	$111,126	$ --	$ --	$ --	$ --	$ --	$ --	$111,126
Weighted average interest rate..........	4.97%	--	--	--	--	--	--	--
Short-term investments..	$464,035	$179,215	$156,510	$79,642	$ 9,404	$ 2,551	$36,713	$464,035
Weighted average interest rate..........	6.09%	5.97%	6.03%	6.26%	6.42%	7.07%	6.36%	
Long-Term Debt								
Secured bank notes......	$ 90,000	$ 3,375	$ 8,250	$32,000	$17,000	$29,375	$ --	$ 90,000
Average interest rate...	8.94%	8.94%	8.94%	8.94%	8.94%	8.94%	8.94%	
Mortgage loan...........	$ 23,956	$ 1,701	$ 1,701	$ 1,701	$ 1,701	$ 1,701	$15,451	$ 23,956
Average interest rate...	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	

The carrying amount, principal maturity and estimated fair value of our investment portfolio and long-term debt exposure as of March 31, 2000 are as follows:

	Carrying Amount	Maturity						Fair Value
	2000	2001	2002	2003	2004	2005	Thereafter	
			(Dollars in thousands)					
Investments								
Cash equivalents........	$603,621	$ --	$ --	$ --	$ --	$ --	$ --	$603,621
Weighted average interest rate..........	5.93%	--	--	--	--	--	--	
Short-term investments..	$ 58,807	$ --	$24,476	$21,341	$9,788	$ --	$ 3,202	$ 58,807
Weighted average interest rate..........	6.48%	--	6.51%	6.49%	6.13%	--	7.28%	
Long-Term Debt								
Secured bank notes......	$ 49,625	$ 500	$ 500	$ 500	$ 500	$ 500	$47,125	$ 49,625
Average interest rate...	8.66%	8.66%	8.66%	8.66%	8.66%	8.66%	8.66%	
Mortgage loan...........	$ 25,515	$1,559	$ 1,701	$ 1,701	$1,701	$1,701	$17,152	$ 25,515
Average interest rate...	8.38%	8.38%	8.38%	8.38%	8.38%	8.38%	8.38%	

We have not historically used derivatives to hedge our interest rate risk. However, under the terms of our Senior Secured Credit Facility entered into on August 17, 1999, we are required to enter into hedge agreements to provide that at least 50% of the outstanding term loans are subject to fixed interest rates. We have entered into interest rate swap agreements to fix the interest rates and mitigate our interest rate risk.

Euro Conversion

On January 1, 1999, 11 of the 15 member countries of the European Union introduced a new currency, the "euro". The conversion rates between the euro and the participating nations' existing legacy currencies were fixed irrevocably as of December 31, 1998. Prior to full implementation of the new currency on January 1, 2002, there will be a transition period during which parties may, at their discretion, use either the legacy currencies or the euro for financial transactions.

We are not aware of any material operational issues or costs associated with preparing internal systems for the euro. While it is not possible to accurately predict the impact the euro will have on the Company's business or on the economy in general, management does not anticipate that the euro conversion will have a material adverse impact on the Company's market risk with respect to foreign exchange, its results of operations, or its financial condition.

Recently Adopted Accounting Standards

During the fourth quarter of fiscal 2001, the Company implemented Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements", or SAB 101. As applied to the Company's operations, SAB 101 requires certain installation fee revenues to be amortized over the life of the related services rather than be recognized immediately. Deferred revenues and costs are being amortized over the average expected customer contract life of 4 years. The Company retroactively adopted this accounting effective April 1, 2000, which resulted in an equal deferral of revenues and incremental and direct set-up costs of $22.4 million. There was no effect on net income. The pro forma effect of adopting SAB 101 on periods prior to April 1, 2000 was not material to the Company's consolidated financial position or results of operations.

Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," is effective for all fiscal years beginning after June 15, 2000. SFAS No.133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The Company adopted SFAS No. 133 effective April 1, 2001. The adoption of SFAS No. 133 will not have a significant impact on the Company's consolidated financial position or results of operations.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Quantitative and qualitative disclosures about market risk is set forth at "Management's Discussion and Analysis of Financial Condition and Results of Operations," under Item 7.

Item 8. Financial Statements and Supplementary Data

Our Consolidated Financial Statements required pursuant to this item are set forth at the pages indicated at Item 14 of this Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Company

The information required by this item concerning our directors, is incorporated by reference to the information set forth in our proxy statement (2001 Proxy Statement) for the 2001 annual meeting of stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended March 31, 2001.

Item 11. Executive Compensation

The information required by this item regarding executive compensation is incorporated by reference to the information set forth in our 2001 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this item regarding security ownership of certain beneficial owners and management is incorporated by reference to the information set forth in our 2001 Proxy Statement.

Item 13. Certain Relationships and Related Transactions

The information required by this item regarding certain relationships and related transactions is incorporated by reference to the information set forth in our 2001 Proxy Statement.

PART IV

Item 14. Exhibits, Financial Statements, Schedules and Reports on Form 8-K

(a)(1) Consolidated Financial Statements:

(a)(2) Financial Statement Schedules:

Independent Auditors' Report

Schedule II--Valuation and Qualifying Accounts

Filed with the Securities and Exchange Commission as Exhibit 99.1. All other schedules have been omitted because the information is not required or is included in the consolidated financial statements.

(a)(3) Exhibits:

Exhibits submitted with this annual report and those incorporated by reference to other filings are listed on the exhibit index of this Form 10-K as filed with the Securities and Exchange Commission.

(b) Reports on Form 8-K:

The Company filed no current reports on Form 8-K in the fourth quarter ended March 31, 2001.

INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors of
Infonet Services Corporation
El Segundo, California:

We have audited the accompanying consolidated balance sheets of Infonet Services Corporation and its subsidiaries (the "Company") as of March 31, 2000 and 2001, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2000 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP
Deloitte & Touche LLP

Los Angeles, California
June 11, 2001

INFONET SERVICES CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands, Except per Share Amounts)

	March 31, 2000	March 31, 2001
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 727,681	$ 137,599
Short-term investments	58,807	464,035
Accounts receivable, net of allowances of $8,364 and $13,855 as of March 31, 2000 and 2001, respectively	138,762	177,420
Deferred income taxes	6,011	6,792
Prepaid expenses	9,308	14,335
Other current assets	177	10,048
Total current assets	940,746	810,229
PROPERTY, EQUIPMENT AND COMMUNICATION LINES, Net	226,562	464,172
GOODWILL AND OTHER INTANGIBLE ASSETS, Net	3,425	7,384
OTHER ASSETS	51,594	64,146
TOTAL ASSETS	$1,222,327	$1,345,931
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term obligations	$ 2,059	$ 5,076
Current portion of capital lease obligations	3,191	3,169
Accounts payable	83,694	76,851
Network communications	50,717	92,301
Accrued salaries and related benefits	22,119	15,859
Income taxes payable	7,538	13,727
Advance billings	22,168	26,799
Deferred installation revenues	--	9,861
Other accrued expenses	12,079	18,823
Total current liabilities	203,565	262,466
DEFERRED REVENUE AND COMPENSATION	29,714	37,215
CAPITAL LEASE OBLIGATIONS	12,058	8,954
LONG-TERM OBLIGATIONS	73,081	108,880
LONG-TERM BANDWIDTH OBLIGATIONS	27,393	--
MINORITY INTEREST	465	663
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Class A common stock, $0.01 par value per share: 400,000 shares authorized; 370,160 and 364,160 shares issued as of March 31, 2000 and 2001, respectively, and 167,403 and 161,403 shares outstanding as of March 31, 2000 and 2001, respectively; 202,757 shares held in treasury	67,167	66,078
Class B common stock, $0.01 par value per share: 600,000 shares authorized; 302,778 and 309,309 shares issued and outstanding as of March 31, 2000 and 2001, respectively	959,870	985,889
Treasury stock, at cost, 202,757 shares	(121,184)	(121,184)
Notes receivable from issuance of common stock	(8,134)	(8,465)
Retained earnings (accumulated deficit)	(19,741)	7,492
Accumulated other comprehensive loss	(1,927)	(2,057)
Total stockholders' equity	876,051	927,753
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,222,327	$1,345,931

See accompanying notes to consolidated financial statements.

INFONET SERVICES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(In Thousands, Except per Share Amounts)

	Year Ended March 31,		
	1999	2000	2001
REVENUES, Net	$302,997	$ 481,444	$661,945
EXPENSES:			
Country representative compensation	53,766	151,283	235,438
Bandwidth and related costs	52,700	90,457	125,438
Network operations	55,041	72,230	79,503
Selling, general and administrative	139,663	196,314	197,879
Total expenses	301,170	510,284	638,258
OPERATING INCOME (LOSS)	1,827	(28,840)	23,687
OTHER INCOME (EXPENSE):			
Interest income	1,881	14,560	43,293
Interest expense	(689)	(7,162)	(11,892)
Other, net	382	(1,310)	914
Total other income, net	1,574	6,088	32,315
INCOME (LOSS) BEFORE PROVISION (CREDIT) FOR INCOME TAXES, MINORITY INTEREST AND EXTRAORDINARY ITEM	3,401	(22,752)	56,002
PROVISION (CREDIT) FOR INCOME TAXES	(180)	3,996	28,043
INCOME (LOSS) BEFORE MINORITY INTEREST AND EXTRAORDINARY ITEM	3,581	(26,748)	27,959
MINORITY INTEREST	132	(43)	224
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	3,449	(26,705)	27,735
EXTRAORDINARY ITEM (Net of income taxes of $363)	--	--	502
NET INCOME (LOSS)	3,449	(26,705)	27,233
OTHER COMPREHENSIVE INCOME (LOSS):			
Foreign currency translation adjustments	(241)	(573)	(3,099)
Unrealized gains (losses) on securities, net of tax	16	(36)	2,969
Minimum pension liability adjustment, net of tax	(138)	138	--
Total other comprehensive loss, net	(363)	(471)	(130)
COMPREHENSIVE INCOME (LOSS)	$ 3,086	$ (27,176)	$ 27,103
BASIC AND DILUTED EARNINGS (LOSS) PER COMMON SHARE	$ 0.01	$ (0.06)	$ 0.06
BASIC WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	373,750	417,197	470,712
DILUTED WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	373,750	417,197	472,599

See accompanying notes to consolidated financial statements.

INFONET SERVICES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

YEARS ENDED MARCH 31, 1999, 2000 AND 2001
(In Thousands)

	Common Stock		Treasury Stock		Notes Receivable From Issuance of Common Stock	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount				
BALANCE, APRIL 1, 1998..	576,507	191,693	(202,757)	(121,164)	--	4,515	(1,093)	74,131
Net income.............	--	--	--	--	--	3,449	--	3,449
Dividends paid.........	--	--	--	--	--	(500)	--	(500)
Foreign currency translation adjustments...........	--	--	--	--	--	--	(241)	(241)
Unrealized gains on securities............	--	--	--	--	--	--	16	16
Minimum pension liability adjustments, net of tax of $92.....	--	--	--	--	--	--	(138)	(136)
BALANCE, MARCH 31, 1999....................	576,507	191,893	(202,757)	(121,184)	--	7,464	(1,456)	76,717
Net loss...............	--	--	--	--	--	(26,705)	--	(26,705)
Public offering of common stock, net of issuance costs........	38,462	766,797	--	--	--	--	--	766,797
Shares issued pursuant to outsourcing agreements, net of issuance costs........	47,840	39,501	--	--	--	--	--	39,501
Exercise of stock options...............	565	475	--	--	--	--	--	475
Exercise of stock purchase rights.......	9,564	7,998	--	--	--	--	--	7,998
Stock-based compensation charge...	--	20,373	--	--	--	--	--	20,373
Notes receivable from issuance of common stock.................	--	--	--	--	(8,134)	--	--	(8,134)
Dividends paid.........	--	--	--	--	--	(500)	--	(500)
Foreign currency translation adjustments...........	--	--	--	--	--	--	(573)	(573)
Unrealized losses on securities............	--	--	--	--	--	--	(36)	(36)
Minimum pension liability adjustments, net of tax of $92.....	--	--	--	--	--	--	138	138
BALANCE, MARCH 31, 2000....................	672,938	1,027,037	(202,757)	(121,184)	(8,134)	(19,741)	(1,927)	876,051
Net income.............	--	--	--	--	--	27,233	--	27,233
Exercise of stock options...............	547	460	--	--	--	--	--	460
Stock-based compensation charge...	--	16,400	--	--	--	--	--	16,400
Conversion of SARs plan..................	--	7,775	--	--	--	--	--	7,775
Repayment of notes receivable from Issuance of common stock.................	--	--	--	--	70	--	--	70
Stock options rescinded.............	(108)	(84)	--	--	--	--	--	(84)
Employee stock purchase plan..................	92	379	--	--	--	--	--	379
Accrued interest on notes receivable......	--	--	--	--	(401)	--	--	(401)
Foreign currency translation adjustments...........	--	--	--	--	--	--	(3,099)	(3,099)
Unrealized gains on securities net of tax of $1,917.............	--	--	--	--	--	--	2,969	2,969
BALANCE, MARCH 31, 2001....................	673,469	$1,051,967	(202,757)	$(121,184)	$(8,465)	$ 7,492	$(2,057)	$927,753

See accompanying notes to consolidated financial statements.

INFONET SERVICES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)

	Year Ended March 31,		
	1999	2000	2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 3,449	$ (26,705)	$ 27,233
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	18,785	27,521	51,654
Amortization of debt acquisition costs	--	551	1,645
Loss on sale of subsidiary	--	--	480
Extraordinary item	--	--	502
Stock based compensation charge	--	33,377	11,112
Loss (gain) on sale of property, equipment and communication lines	(283)	(194)	48
Deferred income taxes	(7,539)	(5,910)	3,507
Minority interest	132	(43)	198
Discount amortization on marketable securities	--	--	(1,731)
Realized gain on marketable securities	--	--	(296)
Changes in assets and liabilities, net of business sold:			
Accounts receivable, net	(10,974)	(81,500)	(40,403)
Prepaid expenses	(2,409)	(172)	(5,068)
Other current assets	(419)	298	(1,348)
Accounts payable	5,725	65,487	(4,224)
Network communications	(1,227)	9,500	11,248
Accrued salaries and related benefits	644	2,035	3,254
Income taxes payable	3,099	(2,786)	5,799
Advance billings	1,978	8,169	4,631
Deferred installation costs	--	--	977
Other accrued expenses	(731)	1,582	3,636
Deferred income and compensation	3,609	7,417	2,340
Purchases of trading securities	(7,628)	(30,497)	(26,399)
Proceeds from sale of trading securities	5,957	19,447	23,732
Other operating activities	(257)	(1,957)	(786)
Net cash provided by operating activities	11,911	25,620	71,741
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, equipment and communication lines	(27,033)	(100,141)	(256,842)
Proceeds from sale of property, equipment and communication lines	902	61	90
Proceeds from sale of subsidiary, net of cash given	--	--	716
Net acquisition cost of minority interest in subsidiary	--	--	(11,682)
Purchases of securities available-for-sale	(11,115)	(60,769)	(803,906)
Proceeds from sale of securities available-for-sale	9,922	7,702	253,117
Maturities of securities available-for-sale	11,546	2,420	152,526
Purchases of held-to-maturity securities	(4,435)	(3,420)	--
Maturity of held-to-maturity securities	2,205	10,281	14
Other investing activities	(2,671)	(1,825)	(3,936)
Net cash used in investing activities	(20,679)	(145,691)	(669,903)

INFONET SERVICES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS--(Continued)
(Dollars in Thousands)

	Year Ended March 31, 1999	2000	2001
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of long-term obligations	16,000	110,000	117,000
Payments on long-term obligations	(7,085)	(69,290)	(78,184)
Payment of capital lease obligations	(2,587)	(2,543)	(3,126)
Payment on long term bandwidth obligations	--	--	(27,000)
Net proceeds from issuance of common stock	--	806,814	754
Repayment of notes receivable from issuance of common stock	--	165	70
Debt issuance cost	--	(5,046)	--
Dividends paid	(500)	(487)	--
Net cash provided by financing activities	5,828	839,613	9,514
EFFECT OF EXCHANGE RATE CHANGES ON CASH	172	(542)	(1,434)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,768)	719,000	(590,082)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	11,449	8,681	727,681
CASH AND CASH EQUIVALENTS, END OF YEAR	$8,681	$727,681	$137,599
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Income taxes	$4,913	$ 12,794	$ 21,351
Interest	$ 698	$ 7,146	$ 11,481
SUPPLEMENTAL NONCASH INVESTING AND FINANCING ACTIVITIES:			
Acquisitions of equipment through capital leases	$7,443	$ 10,870	$ --
Acquisitions of communication lines accrued but not paid	$ --	$ 37,105	$ 29,554
Acquisitions of equipment accrued but not paid	$ --	$ --	$ 1,601

During June 1999, the Company acquired a right of use of capacity in a fiberoptic submarine cable system for a total commitment of $45.0 million. Of the total commitment, $18.0 million was settled in cash in June 1999.

During the year ended March 31, 2000 the Company issued shares of Class C common stock for notes receivable amounting to approximately $8.0 million.

In March, 2000, the Company acquired land and a building for its headquarters facilities for approximately $33.1 million. Of this amount, approximately $25.5 million was financed with a mortgage loan.

During April 2000, the Company amended its 1998 Stock Appreciation Rights Plan ("SARs") resulting in a new measurement date. The Company consequently reduced the SAR's liability and credited stock-related compensation by approximately $5.3 million to reflect the stock price at the new measurement date. The amended SARs Plan provides that the SAR may be settled with stock or cash at the sole discretion of the Company. In accordance with Financial Accounting Standards Board Interpretation No. 28 "Accounting for Stock Appreciation Rights and Other Variable Stock Options or Award Plans" and Financial Accounting Standards Board Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation," the Company is accounting for the tandem awards as equity instruments and the plan, as amended, as a fixed plan under the provisions of APB Opinion No. 25 "Accounting for Stock Issued to Employees." Consequently, the Company reclassified the approximately $7.7 million of remaining SARs liability to class B common stock.

In connection with the adoption of Staff Accounting Bulletin No.101, "Revenue Recognition in Financial Statements" the Company recorded deferred installation fee revenues of $22.4 million as of April 1, 2000 and an equal amount of incremental and direct set up costs.

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MARCH 31, 1999, 2000 AND 2001

1. GENERAL INFORMATION

Description of Business--Infonet Services Corporation ("Infonet" or the "Company") provides cross-border managed data communications services to multinational corporations worldwide. Infonet's largest stockholders include six of the world's major telecommunication companies. Infonet provides services directly through country representatives and indirectly through major international telecommunications carriers and value-added resellers.

Initial Public Offering--In December 1999, the Company completed its initial public offering (the "Offering" or "IPO") of 51,282,300 shares of its Class B common stock at an offering price of $21.00 per share. Of these shares, 12,820,700 Class B shares were sold by six stockholders, and the Company sold 38,461,600 Class B shares. The 12,820,700 shares of Class B common stock sold consisted of 10,513,000 existing Class B shares and a conversion of 2,307,700 Class A shares to Class B shares. Net proceeds to the Company from the Offering, after deduction of associated expenses, were approximately $766.8 million.

Fiscal Year--The Company's fiscal year is the 52- or 53-week period ending on the Friday nearest to March 31. For simplicity of presentation, the Company has described the 52-week periods ended April 2, 1999, March 31, 2000 and March 30, 2001 as the years ended March 31, 1999, 2000 and 2001, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation--All majority-owned subsidiaries and subsidiaries where the Company exercises economic control are included in the consolidated financial statements. All significant intercompany accounts and transactions have been eliminated. The Company's investments in 20% to 50% owned companies in which it has the ability to exercise significant influence over operating and financial policies of the investee are accounted for using the equity method.

Use of Estimates--The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. As with any estimates, actual results could differ from those estimates.

Cash and Cash Equivalents--The Company considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

Fair Value of Financial Instruments--The carrying amounts of cash equivalents, accounts receivable, and accounts payable approximate fair value because of the short-term maturities of these instruments. The carrying amount of available-for-sale securities classified as short-term investments and trading securities classified as other assets reflects their fair value since these securities are marked to market. Long-term debt obligations approximate fair value because related interest rates approximate market rates. The fair value of the interest rate swaps (see Note 8) at March 31, 2000, and 2001 was approximately $9,000 and approximately ($894,000), respectively.

Concentrations of Credit Risk--The Company's financial instruments that are exposed to concentration of credit risk consist primarily of its cash equivalents, available-for-sale investments, and accounts receivable. The Company restricts investments in cash equivalents and available-for-sale investments to financial institutions with high credit standing. Credit risk on accounts receivable is minimized as a result of the large and diverse nature of the Company's worldwide customer base. The Company performs ongoing credit evaluations of its customers' financial condition and maintains allowances for potential credit losses.

Revenue Recognition--The Company records revenues for network services; consulting, integration and provisioning services; applications services; and other communications services when the services are provided. Such services are provided under client contracts, which generally have a term of 1 to 3 years. Installation fee revenues are amortized over the average customer life. Amounts for services billed in advance of the service period and cash received in advance of revenues earned are recorded as advance billings and recognized as revenue when earned. An allowance for customer credits is accrued concurrently with the recognition of revenue.

Depreciation and Amortization--The cost of property, equipment and communication lines, less applicable estimated residual values, is depreciated over their estimated useful lives, on the straight-line method, from the date the specific asset is complete, installed, and ready for normal use, as follows:

Communication, computer and related equipment	3 to 5 years
Communication lines	Shorter of lease term or 15 years
Buildings	40 years
Leasehold improvements	Shorter of lease term or useful lives
Furniture and other equipment	5 to 10 years

Investments in Securities--Short-term investments are classified as available-for-sale with unrealized gains and losses reported as a separate component of accumulated other comprehensive income (loss). Cost and realized gains and losses from the sale of these investments are based on the specific identification method.

Securities held in a trust pursuant to the Company's SERP (see Note 10) are classified as held-to-maturity due to the fact that the Company has the positive intent and ability to hold the securities to maturity. These securities are stated at amortized cost, and are included in other assets.

Securities held in a trust pursuant to the Company's IDIP (see Note 12) are accounted for as trading securities due to the fact that the securities in this trust are invested in accordance with the participants' direction. These securities are recorded in other assets. Both realized and unrealized gains and losses are included in other income.

Goodwill and Other Intangible Assets--Goodwill arising from the acquisition of businesses is amortized on a straight-line basis over a period of 20 years. Intangible assets include customer base and trademarks, which are amortized over 10 years on a straight-line basis and purchased technology, which is being amortized over 5 years on a straight line basis.

Impairment of Long-Lived Assets--The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may no longer be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value. For purposes of estimating future cash flows from possibly impaired assets, the Company groups assets at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets.

Advertising Costs--Advertising costs are expensed as incurred and totaled approximately $2.9 million, $5.0 million, and $5.7 million for the years ended March 31, 1999, 2000 and 2001, respectively.

Income Taxes--Deferred income tax assets and liabilities are computed annually for differences between the financial statement and income tax bases of assets and liabilities. Such deferred income tax asset and liability computations are based on enacted tax laws and rates applicable to periods in which the differences are expected to reverse. If necessary, a valuation allowance is established to reduce deferred income tax assets to the amount expected to be realized. U.S. income taxes have not been provided for the undistributed earnings of the Company's foreign subsidiaries, since such earnings are intended to be permanently reinvested in the operations of those subsidiaries. At March 31, 2001, the cumulative undistributed earnings of the Company's foreign subsidiaries was approximately $29,925,000 and unrecognized deferred taxes were not material.

Foreign Currency Translation--For the Company's foreign operations, the balance sheet accounts are translated at the year-end exchange rate, and income statement items are translated at the average exchange rate for the year. Resulting translation adjustments are recorded as a separate component of accumulated other comprehensive income (loss). Assets and liabilities denominated in foreign currencies are remeasured at the balance sheet date. Resulting exchange rate gains or losses are included as a component of current period earnings. Exchange gains and losses are not material in amount in any period.

New Accounting Pronouncements--During the fourth quarter of fiscal 2001, the Company implemented Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements", ("SAB 101"). As applied to the Company's operations, SAB 101 requires certain installation fee revenues to be amortized over the life of the related services rather than be recognized immediately. SAB 101 Topic 13.A.3, " Accounting for certain costs of revenues" refers to contract acquisition and origination costs and indicates that certain incremental and direct set-up costs may be deferred and accounted for by analogy to SFAS No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases", and FASB Technical Bulletin No. 90-1, "Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts." Consequently, the Company has limited deferrals of incremental and direct set-up costs which are related to the installation fee revenues to the lesser of the costs incurred or the revenue deferred. Deferred revenues and costs are being amortized over the average expected customer contract life of 4 years.

As required by SAB 101, during the fourth quarter of fiscal 2001, the Company retroactively adopted this accounting effective April 1, 2000, which resulted in an equal deferral of revenues and incremental and direct set-up costs of $22.4 million. There was no effect on net income. The pro forma effect of adopting SAB 101 on periods prior to April 1, 2000 was not material to the Company's consolidated financial position or results of operations.

Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," is effective for all fiscal years beginning after June 15, 2000. SFAS No.133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Under SFAS No.133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. SFAS 133, requires that all instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income (loss), depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The Company adopted SFAS No.133 effective April 1, 2001. The adoption of SFAS No. 133 will not have a significant impact on the Company's consolidated financial position or result of operations.

Reclassifications--Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

3. INVESTMENTS IN SECURITIES

The following is a summary of the available-for-sale securities classified as current assets (in thousands).

	Amortized Cost	Fair Value
As of March 31, 2000:		
U.S. government securities	$ 41,915	$ 41,899
Corporate debt instruments	16,922	16,908
	$ 58,837	$ 58,807
As of March 31, 2001:		
U.S. government securities	$237,517	$240,920
Corporate debt instruments	221,534	223,115
	$459,051	$464,035

The estimated fair value of available-for-sale securities by contractual maturity at March 31, 2001 is as follows (in thousands):

Due within one year	$179,215
Due after one year through five years	248,107
Due after five years through ten years	1,389
Due after ten years	35,324
	$464,035

Proceeds from the sale and maturities of available-for-sale securities amounted to approximately $21.5 million, $10.1 million and $405.6 million for the years ended March 31, 1999, 2000 and 2001, respectively. Gross unrealized and realized gains and losses on available-for-sale securities were not material during fiscal 1999 or 2000. Gross unrealized gains on available for sale securities were approximately $4.9 million for the year ended March 31, 2001. Realized gains and losses for available-for-sale securities were approximately $700,000 and $404,000, respectively, during fiscal 2001.

The following is a summary of the held-to-maturity securities classified as other assets (in thousands).

	Amortized Cost	Fair Value
As of March 31, 2000:		
Other debt securities	$ 24	$ 24
	$ 24	$ 24
As of March 31, 2001:		
Other debt securities	$ 11	$ 11
	$ 11	$ 11

Gross unrealized gains and losses on held-to-maturity securities were not material in each of the three years in the period ended March 31, 2001. At March 31, 2001, maturities on held-to-maturity debt securities are overnight.

The net unrealized holding gains on trading securities amounted to approximately $96,000 and $589,000 for the years ended March 31, 1999 and 2000 respectively. The net unrealized holding losses on trading securities amounted to approximately $3.8 million for the year ended March 31, 2001.

4. INCOME TAXES

The provision (credit) for income taxes is summarized as follows (in thousands):

	Year Ended March 31,		
	1999	2000	2001
Current:			
Federal	$ 3,729	$ 3,934	$17,007
State	1,078	1,310	3,861
Foreign	2,552	4,662	4,699
	7,359	9,906	25,567
Deferred:			
Federal	(6,023)	(4,224)	1,995
State	(1,516)	(794)	561
Foreign	--	(892)	(80)
	(7,539)	(5,910)	2,476
	$ (180)	$ 3,996	$28,043

The components of income (loss) before provision (credit) for income taxes, minority interest and extraordinary item are (in thousands):

	Year Ended March 31,		
	1999	2000	2001
Domestic	$(4,537)	$(32,475)	$44,110
Foreign	7,938	9,723	11,892
	$ 3,401	$(22,752)	$56,002

The following table reconciles the difference between the U.S. federal statutory tax rate and the rates used by the Company in the determination of net income (loss) (in thousands):

	Year Ended March 31,		
	1999	2000	2001
Provision (credit) for income taxes, at 34% for 1999 and 2000 and at 35% for 2001	$1,156	$(7,736)	$19,601
State taxes, net of federal effect	(289)	340	2,875
Difference in U.S. federal and foreign tax rates, net	282	464	163
Valuation allowance	(1,617)	3,923	1,335
Non-deductible expense items	233	6,646	4,983
Other	55	359	(914)
	$ (180)	$ 3,996	$28,043

The principal components of deferred tax assets and (liabilities) are as follows (in thousands):

	Year Ended March 31,		
	1999	2000	2001
Differences between book and tax basis of property	$ 6,155	$ 2,999	$(2,426)
Compensation and benefit accruals	5,933	13,940	14,563
Billings in excess of revenues	3,953	4,383	4,759
Net operating loss carryforwards	--	3,923	5,269
Other	389	1,018	1,147
	16,430	26,263	23,312
Valuation allowance	--	(3,923)	--
	$ 16,430	$22,340	$23,312

Deferred tax assets for the years ending March 31, 2000 and 2001 include tax benefits resulting from the net operating loss carryforward ("NOL") of a subsidiary of the Company. In fiscal year 2000 the tax benefit was offset by a valuation allowance established because ownership of the subsidiary was below that needed for inclusion in a consolidated tax filing and, absent group income, realization of the tax asset was in doubt. In fiscal year 2001 the Company acquired additional ownership, enabling it to include the subsidiary in its consolidated tax filing and use the NOL over time against group taxable income. The valuation allowance was credited to the cost of the acquired subsidiary's stock.

During the year ended March 31, 2001 the Company filed a request for determination with the Internal Revenue Service ("IRS") regarding the propriety of establishment of an intangible asset, for tax purposes only, arising in connection with the September 1999 transactions in which the Company obtained access to the customers of AUCS Communication Services N.V. A favorable determination from the IRS could result in establishment of a deferred tax asset that could be material. As there is no assurance that the IRS will determine in the Company's favor, no deferred tax asset (nor its consequent increase to stockholders' equity) has yet been recorded in the Company's financial statements.

Though realization of the Company's deferred tax assets is not assured, management believes that it is more likely than not that all deferred tax assets at March 31, 2001 will be realized. If, however, estimates of future taxable income were to materially decline, the carrying value of those deferred tax assets could be reduced.

5. COMMITMENTS AND CONTINGENCIES

Leases--Minimum fixed payments required for the next five years and thereafter under capital and operating leases in effect at March 31, 2001 are as follows (in thousands):

	Capital Leases Equipment	Operating Leases Real Estate	Operating Leases Equipment
2002	3,946	3,849	3,731
2003	3,391	3,202	2,808
2004	2,592	2,960	395
2005	1,722	2,495	140
2006	1,722	1,265	3
Thereafter	1,292	4,082	--
	14,665	$17,853	$7,077
Imputed interest	(2,542)		
Present value of net minimum lease payments	$12,123		

Rental expense under noncancelable operating leases for the use of real estate and equipment amounted to approximately $8,886,000, $13,006,000 and $8,415,000 in 1999, 2000 and 2001, respectively.

Capital leases pertain to amounts due under leases for the use of furniture and communications and related equipment. The net book value of the related assets included in property, equipment and communication lines was approximately $14,562,000 and $12,895,000 at March 31, 2000 and 2001, respectively.

The Company leases certain communication lines and related bandwidth for its backbone network under short-term arrangements which are cancelable by either party.

At March 31, 2001, the Company is also committed under contracts which resulted from the acquisition of bandwidth for periods of up to fifteen years. Total future payments required under these contracts will total $68.1 million in fiscal year 2002.

Commitments--Included in other assets is $2.0 million of cash pledged to collateralize a loan made by a third party to a former officer of the Company.

Contingencies--During 2001, the Company acquired bandwidth for approximately $9.0 million from a network service provider, which, subsequent to March 31, 2001 filed voluntary petitions for chapter 11 protection with the United States Bankruptcy Court and made analogous filings in the United Kingdom. Information available to the Company currently indicates that it is more likely than not that the network service provider will continue to perform under the original terms of the agreement. As such, the Company is of the opinion that the carrying value of the related asset is not impaired. The Company will continue to monitor the situation and will record an impairment charge whenever events or changes in circumstances indicate that the carrying value of the asset is no longer recoverable.

Litigation--During the normal course of business, the Company may be subject to litigation involving various business matters. Management believes that an adverse outcome of any such known matters would not have a material adverse impact on the Company's financial statements.

6. PROPERTY, EQUIPMENT AND COMMUNICATION LINES

Property, equipment and communication lines recorded at cost consist of the following (in thousands):

	March 31, 2000	March 31, 2001
Communication, computer and related equipment	$160,461	$225,987
Communication lines	112,786	326,733
Land, buildings and leasehold improvements	48,041	50,804
Furniture and other equipment	17,347	16,714
	338,635	620,238
Less accumulated depreciation and amortization	112,073	156,066
Net property, equipment and communication lines	$226,562	$464,172

7. OTHER ASSETS

Other assets consist of the following (in thousands):

	March 31, 2000	March 31, 2001
SERP minimum pension liability (see Note 10)	$ 1,924	$ 1,911
SERP assets (see Note 10)	24	11
IDIP assets (see Note 12)	21,217	19,595
Deferred income taxes	16,329	16,520
Unamortized debt issuance costs	4,495	2,850
Deferred installation costs	--	13,089
Unconsolidated investments in affiliates	1,088	3,988
Employees loan receivable and interest	--	2,421
Other	6,517	3,761
	$51,594	$64,146

On December 8, 2000, the Company loaned, on a collateralized and interest-bearing basis, an aggregate of $2.4 million to several current and former employees who are not corporate officers of the Company (the "Notes"). The Notes are payable on demand. Interest is based on 3-month LIBOR plus .75% (7.35% at March 31, 2001) as determined at the as defined Rate Determination Date. Interest is due and payable in arrears on July 1, 2001 and on each six month anniversary thereafter until the Notes are paid in full.

8. LONG-TERM OBLIGATIONS

On August 17, 1999, the Company entered into a credit agreement with a syndicate of lenders which provided credit facilities to the Company in an aggregate amount of $250.0 million (the "Senior Secured Credit Facility"). The Senior Secured Credit Facility consists of two term loan borrowing facilities, in the amount of $100.0 million (the "Delayed Draw Term Loan") and $50.0 million (the "Tranche B Term Loan"), respectively, and a revolving credit borrowing facility in the amount of $100.0 million (the "Revolving Credit Facility").

The Tranche B Term Loan bears interest, at the Company's option, at the Base Rate, as defined below, plus 1.75% or the eurodollar rate plus 2.75%, and matures in 28 consecutive unequal quarterly installments, which commenced on September 30, 1999. The Delayed Draw Term Loan was accessible until August 20, 2000, bears interest at the Company's option at the Base Rate, as defined below, plus 1.50% or the eurodollar rate plus 2.50% (8.94% at March 31, 2001), and matures in 20 consecutive unequal quarterly installments commencing on September 30, 2001. The Revolving Credit Facility bears interest, at the Company's option, at the Base Rate, as defined below, plus .50% to 1.50% or the eurodollar rate plus 1.50% to 2.50% which margins vary based on the Company's leverage ratio and matures on August 17, 2005. These margins were .50% for Base Rate Loans and 1.50% for eurodollar rate loans at March 31, 2001. The Base Rate is defined as the greatest of the Prime Rate, the Base CD Rate plus 1.00% and the Federal Funds Effective Rate plus .50% in effect on a given day. The Company is required to enter into hedge agreements to provide that at least 50% of the outstanding term loans are subject to either a fixed interest rate or interest rate protection for a period acceptable to the administrative agent.

The loans under the Senior Secured Credit Facility are secured by substantially all of the domestic tangible assets and all intangible assets of the Company and its domestic subsidiaries, excluding certain specific assets identified in the credit agreement. The Senior Secured Credit Facility contains certain affirmative and negative covenants which include restrictions on certain transactions of the Company. The Company was in compliance with all such covenants at March 31, 2001. The Senior Secured Credit Facility also provides for letters of credit to be available to the Company. Furthermore, the credit agreement requires the Company to pay commitment fees of between .50% and 1.00% per year, calculated quarterly, on the average daily amount of available credit, dependent on the amount of the aggregate principal amounts outstanding under the Senior Secured Credit Facility. These commitment fees are payable quarterly in arrears.

Outstanding indebtedness under the Tranche B Term Loan totaled approximately $49.6 million at March 31, 2000 and was repaid in April 2000. Borrowings of $10.0 million were made against the Delayed Draw Term Loan during the year ended March 31, 2000 and were repaid incident to receipt of proceeds over a predetermined amount from the IPO. Maximum borrowings available under the Senior Secured Credit Facility were reduced as a result of the repayment of borrowings against the Tranche B Term loan and the Delayed Draw Term Loan and totaled $190.0 million at March 31, 2001. At March 31, 2001 the Company had $90.0 million outstanding under the Delayed Draw Term Loan.

On March 28, 2000, the Company entered into a mortgage agreement with a bank to provide financing for the purchase of the Company's headquarters facility. The mortgage provided financing of approximately $25.5 million over a 15-year period at the bank's eurodollar rate plus 1.75% or at the bank's reference rate less .50% (7.50% at March 31, 2001) at the Company's option. The mortgage is secured by the subject property. At March 31, 2001 the Company had $23.9 million outstanding under the mortgage agreement.

Maturities of long-term debt for the next five years are as follows (in thousands):

Fiscal Year:	
2002	$ 5,076
2003	9,951
2004	33,701
2005	18,701
2006	31,076
Thereafter	15,451
Total	113,956
Less current portion	(5,076)
	$108,880

During fiscal years 2000 and 2001, the Company entered into interest rate swaps, for an aggregate notional amount of $74.0 million, as required under the terms of the Senior Secured Credit Facility and to minimize financing costs associated with indebtedness. The following table sets forth the notional amount, weighted average pay rate, weighted average receive rate, weighted average maturity, range of maturities and the fair value of the interest rate swaps (dollars in thousands):

	Notional amount	Weighted average pay rate	Weighted average receive rate	Weighted average maturity	Range of maturities	Fair value
Swaps hedging the Senior Secured Credit Facility........	$50,000	6.81%	6.44%	1.5 years	1-2 years	$(582)
Swap hedging mortgage indebtedness...........	$24,000	7.59%	7.50%	14 years	14 years	$(312)

9. LONG-TERM BANDWIDTH OBLIGATIONS

During the year ended March 31, 2000, the Company entered into agreements for long-term rights of use of capacity in various cable systems. The remaining installment payment under one of these agreements of approximately $27.4 million was paid during fiscal year 2001.

10. EMPLOYEE BENEFIT PLANS

Pensions--The Infonet Pension Plan (the "Plan") is a contributory defined benefit pension plan in which substantially all domestic employees are eligible to participate. The benefits for the Plan are based on years of participation and the employee's compensation over the entire period of participation in the Plan. In addition, the Company has a Supplemental Executive Retirement Plan (the "SERP"), which is a nonqualified, noncontributory pension plan. The SERP is a defined benefit retirement plan for designated key officers and executives and provides for benefits based on years of service, age of participant, and the participant's average compensation during his or her final period of employment under the SERP.

INFONET SERVICES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the two years ended December 31, 1999 and 2000, and a statement of the funded status as of the plans' year ends of December 31, 1999 and 2000 which are included in the Company's 2000 and 2001 financial statements, respectively. (dollars in thousands):

	Pension Benefits		Other Postretirement Benefits	
	2000	2001	2000	2001
Change in benefit obligation				
Benefit obligation at beginning of year....	$24,817	17,515	$ 555	535
Service cost....	1,160	957	--	5
Interest cost....	1,338	1,306	36	61
Plan participants' contributions....	643	789	--	--
Actuarial gain....	(4,213)	(202)	(28)	(16)
Benefits paid....	(479)	(646)	(28)	(42)
Amendment....	--	--	--	539
Settlements....	(5,751)	(380)	--	--
Benefits obligation at end of year....	17,515	19,339	535	1,082
Change in plan assets				
Fair value of plan assets at beginning of year....	14,118	17,360	--	--
Actual return on plan assets....	3,078	(213)	--	--
Plan participants' contributions....	643	789	--	3,669
Benefits paid....	(479)	(645)	--	(3,669)
Fair value of plan assets at end of year...	17,360	17,291	--	--
Funded status....	(155)	(2,048)	(535)	(1,082)
Unrecognized net actuarial gain....	(3,989)	(2,138)	(809)	(772)
Unrecognized prior service cost....	2,558	2,087	961	1,425
Net amount recognized....	$(1,586)	$(2,099)	$ (383)	$ (429)
Amounts recognized in the consolidated balance sheets consist of:				
Prepaid benefit cost....	$ 483	$ --	$ --	$ --
Accrued benefit liability....	(3,993)	(4,012)	(535)	(1,082)
Intangible asset....	1,924	1,913	152	653
Net amount recognized....	$(1,586)	$(2,099)	$ (383)	$ (429)
Weighted-average assumptions as of year-end:				
Discount rate....	7.75%	7.50%	7.75%	7.50%
Expected return on plan assets....	9.00%	9.00%	N/A	N/A
Rate of compensation increase....	4.43%	5.43%	N/A	N/A

The rate of compensation increase shown is for the qualified pension plan. For the nonqualified pension plan, compensation is assumed to increase at a 4% annual rate.

For measurement purposes, an 8% annual rate of increase in the per capita cost of covered health care benefits was assumed in 2001. The rate was assumed to decrease gradually to 5% for 2004 and remain at that level thereafter.

Net periodic benefit cost for pension plans include the following components (in thousands):

	Pension Benefits			Other Postretirement Benefits		
	1999	2000	2001	1999	2000	2001
Service cost	$ 1,007	$ 1,160	$ 956	$--	$--	$ 5
Interest cost	1,398	1,338	1,306	40	36	61
Expected return on plan assets	(1,108)	(1,267)	(1,573)	--	--	--
Amortization of prior service cost	478	478	470	64	64	75
Recognized actuarial (gain) loss	103	185	(267)	(54)	(55)	(53)
Net periodic benefit cost	$ 1,878	$ 1,894	$ 892	$ 50	$ 45	$ 88

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plan with accumulated benefit obligations in excess of plan assets were $10,077, $7,251, and $0, respectively as of March 31, 1999, $3,053, $1,441, and $0, respectively as of March 31, 2000 and $2,287, $1,890, and $0, respectively, as of March 31, 2001 (all figures are in thousands).

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects (in thousands):

	1% Increase	1% Decrease
Effect on total service and interest cost components	$ 6	$ (6)
Effect on postretirement benefit obligation	$67	$(68)

At March 31, 2000 and 2001, the Company earmarked a total of approximately $24,000 and approximately $11,000, respectively, and placed this amount in a rabbi trust to satisfy future SERP liabilities. These assets are accounted for as "held-to-maturity" and included in other assets in the accompanying consolidated financial statements. During the year ended March 31, 2000, proceeds from the securities in the rabbi trust were used to satisfy the SERP settlements for designated officers. During the year ended March 31, 2000, the Company's SERP incurred a settlement of approximately $7.8 million of the vested benefit obligation due to a transfer of assets by plan participants from the SERP into the IDIP. The Company recorded a settlement loss of approximately $2.3 million as a result of this settlement.

Employees outside the United States are generally enrolled in pension plans in the country of domicile. These plans are not considered to be significant individually or in the aggregate to the Company's financial statements. The pension liabilities and their related costs are computed in accordance with the laws of the individual countries and appropriate actuarial practices.

11. STOCKHOLDERS' EQUITY

On September 30, 1999, the Company entered into agreements with three of its stockholders (the "Stockholders") and affiliates of the Stockholders which, among other things, gave the Company access to additional multinational corporate clients of the Stockholders. In exchange for the right to market the Company's services to clients of the Stockholders and $40.0 million in cash, the Company issued 47.84 million shares of Class B common stock to the Stockholders. The shares issued were recorded at $40.0 million, which represents the cash received by the Company. Staff Accounting Bulletin 48, "Transfer of Nonmonetary Assets by Promoters or Shareholders," requires that transfers of nonmonetary assets to a company by stockholders in exchange for stock prior to or at the time of the Company's IPO be recorded at the transferor's historical cost basis. Accordingly, the right to market the Company's services to the customers of the Stockholders was valued at the Stockholders' basis of $0.

Contemporaneous with the Company's IPO, approximately 2.3 million shares of the Class A common stock held by a stockholder were converted into an equal number of shares of Class B common stock. During January 2000, the Company's underwriters elected to exercise the right to purchase additional shares to cover over-allotments and approximately 1.3 million shares of Class A common stock held by a stockholder were converted into an equal number of shares of Class B common stock. This resulted in a total conversion of Class A common stock to Class B common stock of approximately 3.6 million shares.

Class A shares and Class B shares vote together as a single class with the Class A shares entitled to ten votes, and the Class B shares entitled to one vote. Class A and Class B shares are entitled to receive dividends on an equal basis other than a dividend of capital stock. The Restated Certificate of Incorporation prohibits the Company and Board of Directors from issuing any further shares of Class C common stock.

12. STOCK INCENTIVE AND DEFERRED COMPENSATION PLANS

During 1999, the Company's Board of Directors adopted the 1998 Employee Stock Purchase Plan (the "Purchase Plan"), the 1998 Stock Appreciation Rights Plan (the "SARs Plan"), the 1998 Stock Option Plan (the "1998 Option Plan") and the 1999 Stock Option Plan (the "1999 Option Plan"). The Company has elected to account for stock-based compensation resulting from stock options issued to employees in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 123, "Accounting for Stock-Based Compensation," encourages a fair value-based method of accounting for stock-based compensation resulting from stock options issued to employees. As permitted by SFAS No. 123, the Company adopted its disclosure-only requirements.

Under the 1998 Option Plan, the Company was authorized to issue options to purchase up to 8.97 million shares of its Class C common stock. Options issued under the 1998 plan vest ratably over a four or five year period beginning one year from the date of the grant. All options must be exercised within ten years from the date of original grant. The 1998 Option Plan was a book value plan whereby participants were granted options to purchase shares of the Company's stock at book value at the date of grant, as calculated in accordance with the 1998 Option Plan. The 1998 Option Plan provided that book value is determined using a formula based on a multiple of the Company's consolidated revenue. The 1998 Option Plan also provided that the Company had a call right to repurchase the shares from stockholders under the 1998 Option Plan who leave the Company's employ, or on or after March 15, 2003, provided that the stock was not publicly traded. The stockholders under the 1998 Option Plan also had a right to put shares purchased under the 1998 Option Plan to the Company, which then had to repurchase the shares at their book value as of that date, provided that the stock was not publicly traded. The 1998 Option Plan was converted to a market value plan, and the Class C common stock was converted to Class B common stock on December 16, 1999, the date of the Company's Offering. In accordance with APB Opinion No. 25 "Accounting for Stock Issued to Employees" and Emerging Issues Task Force Issue No. 88-6, "Book Value Stock Plans in an Initial Public Offering" the Company recorded a charge to compensation expense of $0, approximately $20.4 million and approximately $13.4 million in fiscal years 1999, 2000 and 2001, respectively. The remaining unrecognized compensation expense of approximately $37.1 million will be amortized ratably over the remaining vesting period at a rate of approximately $3.4 million per quarter through December 31, 2003.

Under the Purchase Plan, the Company was authorized to issue up to 17.94 million shares of its Class C common stock to 35 participants designated by the Committee which administers the Purchase Plan. The Purchase Plan was a book value plan whereby participants could purchase shares of the Company's stock at book value at the date of grant, as calculated in accordance with the Purchase Plan. The Purchase Plan provided that book value is determined using a formula based on a multiple of the Company's consolidated revenue. The Purchase Plan also provided that the Company had a call right to repurchase the shares from stockholders under the Purchase Plan who left the Company's employ, or on or after March 15, 2003, provided that the stock was not publicly traded. The stockholders under the Purchase Plan also had a right to put shares purchased under the Purchase Plan to the Company, which then had to repurchase the shares at their book value as of that date, provided that the stock was not publicly traded. During 1999, the Company granted purchase rights with respect to approximately 9.62 million shares at $0.84 per share. Also during 1999, approximately 9.56 million of the approximately 9.62 million rights granted under the Purchase Plan were exercised by employees and the remaining rights expired unexercised. Of the total shares issued, approximately 9.52 million shares were purchased with full recourse notes in the amount of approximately $7,956,000, by the employees to the Company, and approximately 48,000 shares issued were purchased with cash. The approximately 9.56 million shares of Class C common stock issued pursuant to the exercise of purchase rights were converted into an equal number of shares of Class B common stock on December 16, 1999, the date of the Company's IPO, in accordance with the provisions of the Purchase Plan.

Pursuant to the Company's SARs Plan, the maximum number of SARs that could be offered was approximately 1.50 million and the termination date was October 20, 2004 or earlier if certain conditions of the SARs Plan had been fully met. During 1999, the Company amended the SARs Plan by eliminating the limit on the maximum number of SARs that could be offered and the termination date of October 20, 2004. Prior to the Company's IPO on December 16, 1999, the SARs were indexed to the Company's Class C common stock. Subsequent to the Company's IPO, these SARs are indexed to the Company's Class B common stock in accordance with the provisions of the SARs Plan. The SARs vest at 25% per year over four years with the first quartile vesting on January 1, 2001. During the years ended March 31, 1999 and 2000, the Company granted approximately 1.21 million SARs and approximately 561,000 SARs, respectively, at a base price of $0.84 per share. As of March 31, 2000, approximately 77,000 SARs of the total of approximately 1.77 million SARs granted were forfeited. In accordance with Financial Accounting Standards Board Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans," and Financial Accounting Standard Board Interpretation No.44, "Accounting for Certain Transactions Involving Stock Compensation" the Company recorded a charge to compensation expense of $0 and approximately $13.0 million in fiscal years 1999 and 2000, respectively. On April 25, 2000 the Company amended the SARs Plan to provide for a tandem feature which allows for the settlement of the SARs with shares of Class B common stock as an alternative to a cash settlement. The amended SARs Plan provides that the SAR may be settled with stock or cash at the sole discretion of the Company. In accordance with Financial Accounting Standards Board Interpretation No.28 "Accounting for Stock Appreciation Rights and Other Variable Stock Options or Award Plans" and Financial Accounting Standards Board Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation," the Company is accounting for the tandem award as equity instruments and the plan, as amended, as a fixed plan under the provisions of APB Opinion No. 25 "Accounting for Stock Issued to Employees." The amendment to the SARs plan created a new measurement date. The Company credited stock-related compensation by approximately $5.3 million to reflect the stock price at the new measurement date. The remaining unrecognized compensation expense of approximately $8.5 million at the date of the amendment will be amortized ratably over the remaining vesting period at a rate of approximately $770,000 per quarter through December 31, 2003.

Under the 1999 Option Plan, the Company is authorized to issue up to a maximum of approximately 10.6 million shares of its Class B common stock to executives and other employees and directors of, and consultants to, the Company and its affiliates. Options issued under this plan generally vest ratably over periods from three to five years and expire on November 22, 2009 or earlier if certain conditions of the 1999 Option Plan have been fully met.

On April 18, 2000 the Company's board of directors adopted the 2000 Omnibus Stock Plan (the "Omnibus Plan"), which authorizes the Company to grant or issue options, restricted stock and performance awards, dividend equivalents, deferred stock and stock payments up to a total of 6,000,000 shares (which number has received board approval to be increased to 10,000,000 shares, subject to stockholder approval). Options issued under the Omnibus Plan vest as determined by the Company's Compensation Committee at the time of grant and typically must be exercised within 10 years from the date of grant.

The Company's board of directors also adopted on April 18, 2000 the 2000 Employee Stock Purchase Plan (the "Employee Stock Purchase Plan") which is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code of 1986, as amended. The maximum number of shares which may be issued under the Employee Stock Purchase Plan is 2,000,000.

The following summarizes stock option activity (shares in thousands):

	Shares	Weighted Average Exercise Price
Outstanding at March 31, 1999	--	$ --
Granted	14,173	16.89
Exercised	(566)	0.84
Cancelled	(215)	0.84
Outstanding at March 31, 2000	13,392	$17.82
Granted	11,828	7.03
Exercised	(547)	.84
Cancelled	(588)	6.40
Rescinded	108	.84
Outstanding at March 31, 2001	24,193	$13.13

The following summarizes stock options outstanding and exercisable as of March 31, 2001 (shares in thousands):

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number outstanding	Weighted average Remaining life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
$0.84	3,834	6.4	$ 0.84	756	$ 0.84
$5.15-6.00	7,238	9.7	$ 5.77	--	--
$13.50-17.81	2,656	9.2	$13.75	55	$13.75
$21.00-$25.20	10,465	8.7	$22.58	2,141	$22.58
$0.84-$25.20	24,193	8.7	$13.13	2,952	$16.85

The Company used the Black-Scholes option pricing model to determine the fair value of grants made in fiscal 2000 and 2001. The following assumptions were applied in determining the pro forma compensation costs:

	Year Ended December 31,	
	2000	2001
Weighted average risk-free rate of return, annual	5.88%	5.77%
Expected option life, in years	6.0	4.1
Expected volatility	50%	85%
Expected dividend yield	--	--
Fair value of options:		
Granted at market price	$ 7.53	$ 4.81
Granted at prices exceeding market	$11.93	$ 8.45
Granted at prices less than market	$ --	$12.88

The following table represents pro forma net income (loss) and pro forma earnings (loss) per share had the Company elected to account for stock-based compensation in the fiscal year ended March 31, 2000 and 2001 in accordance with SFAS No. 123 (in thousands, except per share amounts).

	March 31,	
	2000	2001
Net income (loss):		
As reported	$(26,705)	$27,233
Pro forma	$(32,117)	$ 3,549
Earnings (loss) per share:		
As reported	$ (0.06)	$ 0.06
Pro forma	$ (0.08)	$ 0.01

During December 2000, the Company and two of its officers rescinded the exercise of approximately 108,000 incentive stock options exercised by those officers earlier in the year. In connection with the rescission, the Company recorded a charge to earnings of approximately $6,000 which represented the excess of the sum of (i) the cash refund of the exercise price to the officers and (ii) the intrinsic value of the options issued at the date of the rescission over the fair value of the shares exchanged by the officers.

The Company has a nonqualified deferred income plan (the "IDIP") for employees earning over a prescribed amount. Participants may defer receipt of compensation, which is held by the Company in trust and is invested in accordance with the participants' directions. As of March 31, 1999, 2000 and 2001 the trust assets held by the Company aggregated approximately $9.8 million, $21.2 million and $19.6 million respectively; the vested portion of trust assets aggregated approximately $8.5 million, $21.2 million and $19.6 million respectively. These assets are accounted for as trading securities and included in other assets in the accompanying financial statements.

In 1995, the Company created an agreement with the participants of the Infonet Phantom Stock Option Plan (the "Phantom Stock Plan") whereby the participants could elect either a cash or deferral option for the vested value of grants under the Phantom Stock Plan at the end of 1994, effectively terminating the Phantom Stock Plan. Participants who elected the deferral option were eligible to receive additional amounts through 1999, based on the Company's achieving revenue and profit goals and the individuals' continued employment. The related expense in 1999 was $830,000. Participants had an option to have their annual vested portion contributed to their individual account as part of the IDIP.

13. RELATED-PARTY TRANSACTIONS

Related parties consist of non-consolidated country representative organizations in which the Company holds less than a fifty percent ownership interest, country representative organizations owned directly or indirectly by the Company's stockholders, and the Company's stockholders and affiliates of the Company's stockholders.

Related party transactions for the years ended March 31 comprise the following (in thousands):

	1999	2000	2001
Revenues, net	$88,278	$194,740	$294,696
Country representative compensation	40,031	131,234	218,942
Bandwidth and related costs	9,002	17,543	17,990
Selling, general and administrative	9,181	10,608	14,097

Approximately $70.2 million of unamortized cost for bandwidth capacity acquisitions from related parties will be expensed in future periods in accordance with the Company's accounting policies. Accumulated amortization as of March 31, 2001 is approximately $6 million.

Related party balances as of March 31 comprise the following (in thousands):

	2000	2001
Accounts receivable	$60,214	$51,205
Accounts payable	58,986	50,579
Network communications	23,584	15,363

As part of the agreements entered into with related parties of the Company on September 30, 1999 (see Note 11), the Company also entered into a three-year management agreement (the "Management Agreement") with a related party. Under the terms of the Management Agreement, the Company earns a management fee equal to 1.5% of the consolidated revenues of the related party up to a defined aggregate maximum, over the term of the agreement. During 2001, the Company recognized management fee revenue of $3.7 million related to this agreement. Also under the terms of the Management Agreement, the Company may earn an incentive payment, based on defined financial performance criteria (the "Performance Criteria"), subject to certain limits. However, if the Performance Criteria are not achieved, the Company will not receive the incentive payment. The Company also entered into an agreement which gives the Company a call option until September 2002, to purchase any and all of the tangible assets of the related party at fair value, not to exceed $130 million.

14. ACQUISITIONS AND DIVESTITURES

In June 2000, the Company sold its interest in Infonet Software Solutions Inc. for $1.5 million in cash, resulting in a loss of $480,000.

In August 2000, the Company paid $12 million in cash to acquire the remaining 51 percent in its subsidiary Networks Telephony Corporation ("NTC"). This acquisition increased the Company's ownership in NTC to 100 percent. The excess of the purchase price of the stock over the fair value of the additional interest obtained in NTC's tangible net assets was $7.8 million and was allocated to purchased technology. Had the acquisition occured as of April 1, 1999 pro forma consolidated revenues, net income (loss) and net income (loss) per share would not have been materially different than the amounts reported for any period.

In September 1999, the Company committed to a plan to dispose of its subsidiary, ESG Communications Inc. ("ESG"). ESG was formed as a wholly owned subsidiary of the Company in March 1998 to sell telecommunications services over international bypass routes. Since formation, ESG had established seven routes. However, substantially increased competition and other market factors decreased the prices which ESG could charge its customers to less than half of those anticipated by the Company at the time of formation of ESG. These decreased prices and less than anticipated volumes resulted in current and forecasted negative cash flows from the operation of each of ESG's routes. Management's plans to dispose of ESG called for the sale or abandonment of those routes. All of ESG's routes were shut down and abandoned as of March 31, 2000.

In connection with its decision to dispose of ESG, the Company recorded a total charge of $4.0 million. This charge was comprised of $3.6 million related to the impairment of communication equipment, of which approximately $1.2 million related to routes abandoned before September 30, 1999, and $400,000 related to remaining payments, after operations ceased, under communication line leases which had no alternative use to the Company. All such lease payments were made in cash before September 2000. The $3.6 million impairment charge and the $400,000 charge for lease payments are included in network operations, and bandwidth and related costs, respectively, in the accompanying consolidated statement of operations for the year ended March 31, 2000. The impairment charge was determined to be equal to the carrying value of the equipment, as the discounted estimated future cash flows from each of the routes were negative. The proceeds from the sale of the equipment were not material. Revenues and losses from operations of ESG were $270,000 and $1.4 million, respectively, for the year ended March 31, 1999, and $1.7 million and $7.2 million, respectively, for the year ended March 31, 2000.

15. EXTRAORDINARY ITEM

In April 2000, the Company recorded an extraordinary item totaling $502,000, net of tax of $363,000 as a result of the write-off of unamortized debt issuance costs associated with the repayment of $49.6 million of the Company's outstanding debt in April 2000.

16. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per common share is computed by dividing net income (loss) by the weighted average of number of shares outstanding during each year. Diluted earnings (loss) per common share is computed based on the weighted average share plus the dilutive effect of potential common stock.

At March 31, 1999 and 2000, the only forms of potential common stock were purchase rights and stock options, respectively. At March 31, 2001, the only forms of potential common stock were purchase rights and stock options. The inclusion of potential common stock as of March 31, 1999 and 2000 had an anti-dilutive effect on earnings per share. As of March 31, 2001, the dilutive effect of the purchase rights and stock options resulted in diluted weighted average number of common shares of 472.6 million shares. Options to purchase approximately 17.8 million shares of common stock were outstanding at March 31, 2001, but were not included in the computation of diluted earnings per share because to do so would have been antidilutive.

17. SEGMENT INFORMATION

The Company conducts business in two operating segments: country representatives or Direct Sales Channels ("Direct") and Alternate Sales Channels ("Alternate"). Both of these segments generate revenues by providing customers with a complete global networking solution.

The Company has organized its operating segments around differences in distribution channels used to deliver its services to customers. These segments are managed and evaluated separately because each segment possesses different economic characteristics requiring different marketing strategies.

The accounting policies adopted for each segment are the same as those described in the summary of significant accounting policies. The Company's management evaluates performance based on operating contribution, where segment revenues are reduced by those costs that are allocable to the segments. Costs relating to operating the Company's core network, and non-allocable general, administrative, marketing and overhead costs, including income tax expense, are not charged to the segments. Accordingly, neither assets related to the core network, nor their associated depreciation expense are allocated to the segments.

The Company accounts for intersegment transactions on the same terms and conditions as if the transactions were with third parties.

Summarized financial information concerning the Company's reportable segments is shown in the following table (in thousands).

	Year Ended March 31,		
	1999	2000	2001
Reportable segments:			
Revenues from external customers:			
Direct	$273,150	$ 357,494	$ 405,201
Alternate	29,847	123,950	256,744
Totals	$302,997	$ 481,444	$ 661,945
Operating contribution:			
Direct	$ 97,350	$ 115,928	$ 156,664
Alternate	16,975	43,086	96,662
Totals	$114,325	$ 159,014	$ 253,326
Depreciation and amortization:			
Direct	$ 5,163	$ 6,760	$ 7,886
Alternate	36	8	15
Totals	$ 5,199	$ 6,768	$ 7,901

	March 31,		
	1999	2000	2001
Total assets:			
Direct	$ 63,459	$ 85,363	$ 91,946
Alternate	8,683	63,804	100,525
Totals	$ 72,142	$ 149,167	$ 192,471

	Year Ended March 31,		
	1999	2000	2001
Reconciliation:			
Operating contribution from reportable segments	$114,325	$ 159,014	$ 253,326
Core network, overhead and other non-allocable costs	(110,924)	(181,766)	(197,324)
Income (loss) before income taxes and minority interest	$ 3,401	$ (22,752)	$ 56,002

	March 31,		
	1999	2000	2001
Total assets of reportable segments	$ 72,142	$ 149,167	$ 192,471
Core network, corporate and other non-allocable assets	110,121	1,073,160	1,153,460
Total assets	$182,263	$1,222,327	$1,345,931

	Year Ended March 31,		
	1999	2000	2001
Geographic Information:			
Revenues from external customers based upon the country in which invoices are produced are as follows:			
United States	$103,190	$126,358	$134,774
Netherlands	34,944	61,497	105,191
United Kingdom	19,682	53,885	80,088
Sweden	13,859	39,743	63,657
Germany	23,438	30,962	45,559
Switzerland	12,071	29,133	40,992
France	13,183	27,148	39,180
Other	82,630	112,718	152,504
	$302,997	$481,444	$661,945

	March 31,		
	1999	2000	2001
Long-lived assets:			
United States	$ 44,529	$218,545	$456,107
United Kingdom	2,862	3,172	2,919
Other	5,015	4,845	5,146
	$ 52,406	$226,562	$464,172

	Year Ended March 31,		
	1999	2000	2001
Services Information:			
Revenues from external customers:			
Network services	$144,642	$217,006	$283,248
Consulting, integration and provisioning services	78,777	116,534	179,932
Applications services	20,068	15,286	10,540
Other communications services	59,510	132,618	188,225
	$302,997	$481,444	$661,945

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report be signed on its behalf by the undersigned, thereunto duly authorized in the City of El Segundo, State of California, on the 25th day of June, 2001.

INFONET SERVICES CORPORATION

By: /s/ Jose A. Collazo

Jose A. Collazo
President and Chairman of the Board of Directors

Pursuant to the requirements of the Exchange Act, this Report has been signed by the following persons on June 25, 2001, in the capacities indicated:.

Signature	Title
/s/ Jose A. Collazo Jose A. Collazo	President and Chairman of the Board of Directors
/s/ Akbar H. Firdosy Akbar H. Firdosy	Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ Makoto Arai Makoto Arai	Director
/s/ Douglas Campbell Douglas Campbell	Director
/s/ Eric M. DeJong Eric M. DeJong	Director
/s/ Morgan Ekberg Morgan Ekberg	Director
/s/ Timothy P. Hartman Timothy P. Hartman	Director
/s/ Heinz Karrer Heinz Karrer	Director
/s/ Matthew J. O'Rourke Matthew J. O'Rourke	Director
/s/ Rafael Sagrario Rafael Sagrario	Director

EXHIBIT INDEX

Number	Description
3.1	Restated Certificate of Incorporation #
3.2	Amended and Restated Bylaws #
9.1	Form of Amended and Restated Stockholders Agreement to be in effect upon the closing of this offering #
10.1	1998 Stock Option Plan #
10.2	1998 Stock Purchase Plan #
10.3	1999 Stock Option Plan #
10.4	Infonet Deferred Income Plan #
10.5	1998 Stock Appreciation Rights Plan #
10.6	Supplemental Executive Retirement Plan #
10.7	Senior Secured Credit Agreement, dated as of August 17, 1999#, as amended by Amendment No. 1 filed as Exhibit 10.1 with the Company's Form 10-Q for the period ended June 30, 2000 and Amendment No. 2 filed as Exhibit 10.7(a) with the Company's Form 10-Q for the period ended September 30, 2000
10.8	Employment Agreement of Jose A. Collazo #
10.10	Standard Infonet Services Agreement #
10.11	Capacity Right of Use Agreement with FLAG Limited dated as of June 25, 1999 #
10.12	AUCS Services Agreement, dated as of September 30, 1999 #
10.13	AUCS Call Option Deed, dated as of September 30, 1999 #
10.14	AUCS Management Agreement, dated as of September 30, 1999 #, as amended by the Deed of Amendment attached hereto
10.15	AUCS Assignment Agreement, dated as of September 30, 1999 #
10.16	Lease for Grand Avenue Corporate Center at 2160 Grand Avenue, El Segundo, California #
10.17	Employment Agreement of Mr. Akbar Firdosy #
10.18	Infonet Services Corporation 2000 Omnibus Stock Plan*
10.18(a)	Amendment to the Infonet Services Corporation 2000 Omnibus Stock Plan, filed with the Company's Form 10-Q for the period ended December 31, 2001
10.19	Infonet Services Corporation 2000 Employee Stock Purchase Plan*
10.20	Employment Agreement of Paul A. Galleberg, filed with the Company's Form 10-Q for the period ended December 31, 2001
10.21	Consulting Agreement of Ernest U. Gambaro, filed with the Company's Form 10-Q for the period ended December 31, 2001
10.22	Secured Demand Promissory Note between Michael J. Timmins and Janice Timmins JTWROS, a trust, and Infonet Services Corporation
10.23	Secured Demand Promissory Note between Thomas E. Whidden Ttee & Linda L. Whidden Ttee, U/A dtd 11/7/97 by Whidden Trust, a trust, and Infonet Services Corporation
21.1	Consolidated Subsidiaries as of March 31, 2001
23.1	Consent of Deloitte & Touche LLP

Number	Description
99.1	Schedule II--Valuation and Qualifying Accounts

Incorporated by reference to the corresponding exhibit number from the Registrant's Registration Statement on Form S-1 filed with the Commission on December 15, 1999.

• Incorporated by reference to Appendices A and B, respectively, of Infonet Services Corporation's definitive proxy statement filed with the Commission on July 27, 2000.